

Message Text

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ACTION XMB-07

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FOR EXIMBANK

E.O. 11652: N/A

TAGS: BPRO, BEXP, KS

SUBJECT: SEVENTH FERTILIZER PROJECT

1. MIN, YONG KI, DIRECTOR OF NAMHAE CHEMICAL CORPORATION CALLED ON EMBASSY MAY 28 TO INFORM US OF HIS PLANS TO TRAVEL TO WASHINGTON FOR A MEETING WITH EXIMBANK OFFICIALS ON MAY 31. NAMHAE CHEMICAL IS SUBSIDIARY FIRM SET UP BY KOREA GENERAL CHEMICAL CORPORATION (KGCC) TO TAKE OVER THE DEVELOPMENT OF SEVENTH FERTILIZER COMPLEX.

2. AS WE UNDERSTAND IT, PRESENT SITUATION REGARDING SEVENTH FERTILIZER PROJECT IS AS FOLLOWS: NEGOTIATIONS BETWEEN AGRICO AND KGCC ON EQUITY PARTICIPATION IN SEVENTH FERTILIZER BY AGRICO ARE SNAGGED ON TWO POINTS; NEED FOR NON-FERTILIZER DOMESTIC SALES, (AGRICO STATES THIS FIELD IN WHICH THEY LACK EXPERIENCE) AND THE BASIS FOR DOMESTIC PRICING. ON PRICE FORMULA, WHICH IS THORNIEST PROBLEM, AGRICO APPARENTLY AWARE OF HIGH INVESTMENT YIELD FOR U.S. COMPANIES ALREADY INVOLVED IN KOREAN FERTILIZER PRODUCTION AND WANTS SOMETHING OF THE SAME. HOWEVER, KGCC SAYS IT IS CAUGHT BETWEEN AGRICO AND THE SEVERAL GOVERNMENT AGENCIES INVOLVED IN THIS AREA. MIN REPORTS FLOUR HAS ALREADY BEGUN ENGINEERING WORK AT ITS OWN RISK AND BANK OF AMERICA, WHICH IS HANDLING COMMERCIAL BANKS PORTION OF FINANCIAL PACKAGE, REPORTS GOOD PROGRESS ON ITS

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SYNDICATION.

3. KGCC DESIRES AGRICO INVESTMENT BUT IS CONCERNED ABOUT TIME FACTOR WHICH THEY NOW FEEL IS CRITICAL. KGCC ORIGINAL TARGET DATE FOR EXIM APPROVAL WAS END OF MAY, WITH CONTINGENCY PLANS ALLOWING FOR APPROVAL AS LATE AS MID-JUNE. MIN STATES THE ENTIRE PROJECT IS IN DANGER OF COLLAPSE IF APPROVAL NOT FORTHCOMING BY MID-JUNE. CRITICAL TIME FACTOR WILL NOT PERMIT KGCC TO WAIT ANY LONGER FOR CONCLUSION OF INVESTMENT AGREEMENT BEFORE MOVING FORWARD ON PROJECT AS A WHOLE. KGCC NEEDS EXIM MONEY NOW TO COVER PROJECT COMMITMENTS WHICH CANNOT BE POSTPONED. THUS MIN IS BRINGING TO EXIM A WHOLE NEW SET OF NUMBERS ON PROJECT FINANCING AND PROJECTIONS, WITH AGRICO LIMITED TO ROLE OF SUPPLIER OF PHOSPHATE ROCK. MIN CANDIDLY ADMITS THAT THIS ONE OF FEW OCCASIONS WHEN GOVERNMENT ENTERPRISE HAS BECOME SO HEAVILY COMMITTED TO A PROJECT BEFORE RECEIVING FINAL GOVERNMENT APPROVAL OF CREDITS WHICH WILL MAKE PROJECT GO.

4. CURSORY EXAMINATION KGCC DOCUMENTS INDICATES KGCC HAS STRONG CASE THAT THIS IS VIABLE PROJECT EVEN WITHOUT AGRICO EQUITY PARTICIPATION. WE NOTE THAT FLOUR IS ALREADY DEEPLY COMMITTED TO PROJECT AND BANK OF AMERICA VERY ACTIVE IN FINANCING ARRANGEMENTS. EPB HAS TODAY REAFFIRMED THAT SEVENTH FERTILIZER PROJECT CONTINUES TO HAVE FIRST PRIORITY IN KOREAN GOVERNMENT'S INDUSTRIAL EXPANSION PROGRAM
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